



## Filing Receipt

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# OPEN MEETING COVER SHEET

**MEETING DATE:** November 18, 2021

**DATE DELIVERED:** November 10, 2018

**AGENDA ITEM NO.:** 14

**CAPTION:** Project No. 51718—*Year-End 2020 Electric  
Utility Earnings Reports Pursuant to 16 TAC  
§ 25.73*  
Darryl Tietjen and Anna Givens

**ACTION REQUESTED:** Discussion and Possible Action

# *Public Utility Commission of Texas*

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## **Memorandum**

**TO:** Chairman Peter M. Lake  
Commissioner Will McAdams  
Commissioner Lori Cobos  
Commissioner Jimmy Glotfelty

**FROM:** Darryl Tietjen, Rate Regulation  
Anna Givens, Rate Regulation

**DATE:** November 10, 2021

**RE:** Open Meeting, November 18, 2021—Agenda Item No. 14  
Project No. 51718 – *Year-End 2020 Electric Utility Earnings Reports in Accordance with 16 TAC § 25.73*

### **Introduction**

This memorandum summarizes the results of Staff's review of the year-end 2020 electric utility earnings reports filed under the provisions of 16 Texas Administrative Code (TAC) § 25.73. This year, for the state's 13 investor-owned electric utility (IOU) companies, Staff performed a general review of the filed earnings reports. Except as otherwise discussed in the remainder of this memo, we did not identify any of the IOU companies as warranting a more detailed analysis at the present time.

In addition to reviewing the reports filed by the 13 regulated IOUs, Staff reviewed the earnings reports filed by the state's electric cooperatives, municipalities, and river authorities (non-IOUs) that provide wholesale transmission service. Although these entities have original jurisdiction in their service territories and set their own *retail* rates, the Commission exercises regulatory authority over their wholesale transmission rates. For year-end 2020, a total of 37 electric cooperatives, municipalities, and river authorities filed transmission-service earnings reports with the PUC.

### **Summary of Staff's Findings and Recommendations**

Based on the information presented below, Staff is not at this time making any recommendations that the Commission require the filing of an application for a comprehensive rate proceeding by any of the 13 electric IOUs. All these companies have either (1) received Commission rate orders relatively recently; (2) have pending rate proceedings; or (3) will soon be filing applications for comprehensive rate cases. Additionally, the provisions of 16 TAC § 25.247 (the "scheduling rule") now establish for IOUs in the Electric Reliability Council of Texas (ERCOT) service area a periodic filing schedule for comprehensive rate proceedings.<sup>1</sup> Given these circumstances, Staff does not believe that additional (or separate) Commission action for these entities is currently necessary.

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<sup>1</sup> Note that Public Utility Regulatory Act Section 36.212 includes similar requirements for periodic rate-case filings by electric utilities that operate solely outside of ERCOT.

Similarly, with regard to the non-IOU entities, Staff is not at this time making any recommendations that the Commission require any of those utilities to file an application for a comprehensive rate proceeding.

We discuss these and other points in additional detail below.

### **IOUs: Listing and Discussion of Reported Rates of Return on Equity (ROE)**

Below is a listing (and related comments on relevant past or future rate cases) of the electric IOUs' overall, weather-adjusted ROEs as reported by the companies in their earnings reports for year-end 2020.

<b>TDUs</b>	<b>Overall ROEs (weather-adjusted)</b>	<b>Comments</b>
<b>AEP Texas</b>	<b>6.66%</b>	<b>Last order April 6, 2020 (Docket No. 49494).</b>
CenterPoint Energy Houston Electric	8.88%	Last order March 9, 2020 (Docket No. 49421).
<b>Oncor Electric Delivery</b>	<b>9.18%</b>	<b>Will file application for rate proceeding by June 1, 2022 (per order in Docket No. 52100).</b>
Texas-New Mexico Power	8.11%	Scheduled to file next case in December 2022.
<b>Transmission-Only Companies</b>		
<b>Wind Energy Transmission Texas</b>	<b>10.81%</b>	<b>See additional discussion below.</b>
Cross Texas Transmission	12.32%	Last order January 14, 2021 (Docket No. 51534); settlement agreement reduced rates \$8.85 million (note that 12.32% ROE for 2020 reflects reporting period prior to effective date of reduced rates).
<b>Electric Transmission Texas</b>	<b>9.83%</b>	<b>Last order January 14, 2021 (Docket No. 51583); settlement agreement reduced rates \$8.3 million (note that 9.83% ROE for 2020 reflects reporting period prior to effective date of reduced rates).</b>
Sharyland Utilities	5.85%	Last order July 15, 2021 (Docket No. 51611).
<b>Lone Star Transmission</b>	<b>12.30%</b>	<b>Last order Sept. 24, 2020 (Docket No. 51206); settlement agreement provides for a \$5.3 million line-item revenue reduction in each interim transmission cost of service (TCOS) application filed by Lone Star prior to its next comprehensive rate case (note that 12.30% ROE for 2020 reflects reporting period prior to effective date of reduced rates).</b>
<b>Vertically Integrated IOUs</b>	<b>Texas-Juris. ROE</b>	<b>Comments</b>
<b>Entergy Texas</b>	<b>9.32%</b>	<b>Expects to file next case around mid 2022.</b>
Southwestern Public Service	--	Docket No. 51802 pending.
<b>Southwestern Electric Power</b>	<b>--</b>	<b>Docket No. 51415 pending.</b>
El Paso Electric	--	Docket No. 52195 pending.

*Additional Discussion: Wind Energy Transmission Texas (WETT)*

In Staff's earnings-report memo filed in October 2017 (in Project No. 46910), we identified WETT as having excess revenues on the basis of the company's reported 11.25% ROE in its year-end 2016 earnings report. At that time, we did not recommend Commission action for WETT. The following year, in Staff's memo filed in October 2018 (in Project No. 48158), we again noted WETT's excess earnings, based on the company's reported 2017 ROE of 12.43%. At that ROE level, Staff estimated the amount of WETT's excess revenues to be \$16.4 million and recommended that the Commission initiate the filing of an application by WETT for a comprehensive rate proceeding. The Commission agreed with Staff's recommendation and ordered WETT to file a comprehensive rate case by February 13, 2019. Prior to filing that case, however, WETT reached an agreement with parties to reduce its revenues by \$16 million, and on April 4, 2019, the Commission rescinded its order requiring WETT to file an application for a rate case. Because the \$16 million revenue decrease was not effective until January 1, 2019, WETT's reported ROE of 13.46% for 2018 did not reflect the reduction.

For 2019, despite the \$16 million revenue reduction, WETT reported an ROE of 10.55%, and for 2020, WETT reported an ROE of 10.81%. Given current conditions in the capital markets and based on ROE levels that the Commission has approved over the last several years,<sup>2</sup> Staff believes that these ROE levels are excessive, particularly for a transmission-only provider.

In our current assessment of WETT's circumstances, we took into account a number of factors, including (1) the Commission's July 2020 approval (in sale-transfer-merger Docket No. 50584) of a change in the ownership and control of WETT; (2) WETT's obligation, under the provisions of the settlement agreement and order in Docket No. 50584, to file a comprehensive rate proceeding no later than December 31, 2022; (3) the relative time period since the implementation of WETT's revenue reduction; and (4) the workload that the Commission and other parties will face from various other Commission activities and expected rate proceedings in the coming year (including comprehensive rate cases for Denton Municipal Electric, the City of College Station, Oncor Electric Delivery, Entergy Texas, and Texas-New Mexico Power Company).

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<sup>2</sup> Over the last seven years, Commission orders in electric IOU dockets have included ROEs of:

- 9.60% (Lone Star Transmission Company—Docket No. 42469, stipulated);
- 9.70% (Southwestern Public Service—Docket No. 42004, stipulated);
- 9.60% (Cross Texas—Docket No. 43950, stipulated);
- 9.60% (Wind Energy Transmission Texas—Docket No. 44746, stipulated);
- 9.70% (Southwestern Public Service—Docket No. 43695);
- 9.70% (El Paso Electric Company—Docket No. 44941, stipulated);
- 9.60% (Southwestern Public Service—Docket No. 45524, stipulated);
- 9.80% (Oncor Electric Delivery Company—Docket No. 46957, stipulated);
- 9.65% (El Paso Electric Company—Docket No. 46831, stipulated);
- 9.60% (Southwestern Electric Power Company—Docket No. 46449);
- 9.50% (Southwestern Public Service—Docket No. 47527, stipulated);
- 9.65% (Entergy Texas—Docket No. 48371, stipulated);
- 9.65% (Texas-New Mexico Power Company—Docket No. 48401, stipulated);
- 9.40% (CenterPoint Energy Houston Electric—Docket No. 49421, stipulated);
- 9.40% (AEP Texas—Docket No. 49494, stipulated);
- 9.45% (Southwestern Public Service—Docket No. 49831, stipulated); and
- 9.38% (Sharyland Utilities—Docket No. 51611, stipulated).

As we noted in last year's earnings-report memo, this year we again believe it is a close call with respect to whether the Commission should at this time require WETT to file an application for a comprehensive rate proceeding. After considering the above considerations—in particular, WETT's obligation under the terms of the order in Docket No. 50584 to file its next comprehensive rate case no later than December 2022—Staff does not presently recommend any specific Commission action for WETT.

### **Non-IOU Entities: Discussion of Amended Scheduling Rule and Earnings Reports**

On November 8, 2018, the Commission adopted in Project No. 48377 an amendment to the scheduling rule. In general, the amendment established a periodic filing schedule for non-IOU transmission service providers and included a two-year transition period for those providers that had not received a Commission order for a rate adjustment since January 1, 2017.<sup>3</sup> An important point to note here is that, for purposes of meeting the periodic filing requirements, the rule provides that a non-IOU transmission service provider may file for a comprehensive cost of service review or an interim update.

As an additional general point of information, Staff notes that subsection (d) of the scheduling rule provides that:

Nothing in this section limits the commission's authority to initiate a rate proceeding at any time under this title on the basis of other criteria that the commission determines are in the public interest, including but not limited to the information provided in a non-investor-owned transmission service provider's earnings monitoring report.

After reviewing the year-end 2020 earnings reports of the non-IOU transmission service providers, and in consideration of the periodic filing requirements now applicable to such providers, Staff does not at this time recommend any Commission action regarding the requirement of rate-case applications by those entities.<sup>4</sup> We will continue, however, to monitor the need for possible Commission action pertaining to these entities in the context of the scheduling rule's specific provisions and the companies' individual circumstances. In particular, during (or, resources permitting, prior to) the next cycle of Staff's review of earnings reports, Staff plans to more closely review the wholesale transmission cost and revenue levels of LCRA Transmission Services Corporation, which last underwent a comprehensive Commission review of its transmission cost of service in 2012 (in Docket No. 39891). Since then, LCRA Transmission Services Corporation has used interim updates (which can be filed up to two times per year) to reflect in its transmission rates a more than doubling of its transmission rate base from approximately \$1.6 billion to over \$3.4 billion—an amount that, by far, is the largest of any non-IOU transmission service provider in Texas.

We are available to answer any questions you may have on these matters.

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<sup>3</sup> All non-IOUs that were required to make a filing during the two-year transition period did so.

<sup>4</sup> We note that, as a consequence of our recommendation last year to the Commission to require Denton Municipal Electric to file an application for a comprehensive rate proceeding—and the Commission's subsequent order reflecting agreement with that recommendation—on November 1, 2021, Denton filed an application in Docket No. 52715 for a comprehensive review of its transmission cost of service.